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## GEOGRAPHIC SUPPORT PROJECT

### BRIEF ON ETHIOPIA



CIA/RR GP 60-105:L

September 1960

# CENTRAL INTELLIGENCE AGENCY

## OFFICE OF RESEARCH AND REPORTS

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CONTENTS

	<u>Page</u>
I. Background . . . . .	1
II. Strategic Significance . . . . .	2
III. Population . . . . .	3
IV. Recent Bloc Aid and Western Air Programs . . . . .	8
V. Economy . . . . .	13
A. General Character . . . . .	13
B. Foreign Trade . . . . .	16
C. Internal Trade . . . . .	20
D. Plans for Economic Development . . . . .	26
VI. Strengths and Weaknesses in the Economy . . . . .	26

MAP IN POCKET

Ethiopia, Eritrea, and the Somalilands (21709)

BRIEF ON ETHIOPIA

I. Background

The Empire of Ethiopia consists of the 12 provinces of Ethiopia proper plus the former Italian colony of Eritrea, which was federated with Ethiopia on 15 September 1952. In practice Eritrea is treated merely as another province and, therefore, in this paper the entire area is called Ethiopia. Federation gave the high plateau of former Ethiopia direct access to the Red Sea ports of Massaua and Assab, thus supplementing the access route via the French Somaliland port of Djibouti on the Gulf of Aden (see map). The port of Djibouti has the advantage of a rail connection to the interior and remains the principal outlet, although truck transportation to the port of Assab is becoming increasingly important.

Most of Ethiopia consists of a high dissected plateau, which is surrounded on all but the extreme northeast and east by plains or rolling foothills. A great rift valley cuts across the middle of the plateau. The plateau is also cut by deep ravines, leaving many isolated flat-topped blocks of land with nearly vertical sides. Mountains rise above the plateau in some places. Coffee, the principal export, is grown on the plateau, which has a temperate climate with sufficient rainfall for growing coffee and other crops. Whereas natural vegetation on the plateau is principally woodland, the lowland -- where the rainfall is much lower -- is either grassland or desert.

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Ethiopia has a number of problems, among which may be mentioned (1) the latent separatist tendencies of Eritrea, (2) the boundary problem with the Somali Republic, (3) the encroachment of Islam upon a Christian-dominated nation, (4) the spillover of Somali tribes into eastern Ethiopia, and, finally, (5) the problem of attempting to modernize a quasi-feudal state.

Against such a background this report sets forth only the salient facts about Ethiopia's strategic significance, population, acceptance of Soviet and Free World aid programs, and economy. The report is not intended to be a complete analysis of the cultural and physical factors that make up the Ethiopian scene but is intended solely for use in formulating economic action programs.

## II. Strategic Significance

Ethiopia only recently has attempted to break out of its shell of almost medieval isolation; and its social, political, and economic institutions have barely begun to take modern forms. Aside from coffee, the country has practically no products or natural resources that are wanted by the outside world. At present, therefore, Ethiopia has little strategic value except for its position at the southern end of the Red Sea. Although locations such as this are possibly becoming less and less critical in a missile age, it is worth noting that, with very little modern military equipment and trained manpower, Ethiopia -- or any power using Ethiopian territory -- could restrict the movement of ships along one of the major oil routes of the world. The position

of Ethiopia athwart air routes that link the Middle East and northeastern Africa with eastern and central Africa is of potential importance strategically.

Among all of the Sub-Saharan nations, Ethiopia is unique as far as United States military posture is concerned. The only United States base in Sub-Saharan Africa is in Ethiopia, where a major radio communications facility at Kagnew Station in Asmara is used by the United States Army and the United States Navy. Ethiopia also is the recipient of benefits from the only sub-Saharan United States military aid program, which was inaugurated in 1954.

In one sense, the weakness and apparent lack of strategic importance of Ethiopia could enhance its value or, at least, its significance to world powers. The primitive state of the political, economic, and social development of the country make it a relatively attractive target for any modern power desiring to control or influence the government. This is particularly true because of the unusual concentration of power in the hands of one aged man, Emperor Haile Selassie.

### III. Population

Ethiopia has about 18 million people, according to official estimates. A more realistic figure probably would be 15 to 16 million. The population is divided into more than a dozen major groups with diverse languages and religions. The Amharas number about 2 million, the Tigreans between 3 and 4 million, and the Gallas more than 7 million. The remainder of the population consists of smaller ethnic groups such as

the Danikils, Somalis, Sidamis, Agaus, Bejas, Nilotic tribes of negro and mixed descent, and small groups of Arabs and Europeans. In the total population, Christian and Muslim elements are approximately equal -- the Amharas, Tigreans, and Europeans are Christians; and the Arabs and most of the Gallas are Muslims, as are the Danikils and Somalis. The Nilotic tribes are mainly pagan.

Through the centuries, the Shoa Amhara group (from Shoa Province) has come to occupy the dominant position. One plausible estimate of the ethnic affiliations of high-ranking personnel in the government indicates that the major tribal groups are represented as follows: Shoa Amhara, 64 percent; Tigre and Galla, 14 percent each; and those whose origin has not been ascertained, 8 percent. The overwhelming influence of the Amhara group is reflected also in everyday life. Non-Amharas are discriminated against in private employment as well as in government, where they have a relatively ineffective voice. Inasmuch as kinship is by far the most important basis for loyalty among Ethiopians, the accepted and expected mode of behavior is for relatives to assist one another.

The most important factions within the Shoa Amhara group are the Moja and Addisge clans, who have a common ancestor. The Moja have inherited considerable amounts of land and perhaps are the wealthiest and most influential people in the country. The practice of giving land to loyal military chiefs throughout a long victorious past has continued into the present reign and has been generally construed as a mandate to loot the provinces.



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During the early part of 1960 the Moja clan counted among its members the Vice President of the Senate, Governors General of Gojjam and Begemdir Provinces, Commander of the Imperial Bodyguard, Director General of the Ministry of Foreign Affairs, Minister of Commerce and Industry, Minister of Education, and Secretary of the Coffee Board.

Although in the past a certain amount of enmity has existed between the Moja and Addisge clans, mutual resentment now is lessening, even to the point of recent marriages between members of the two clans. The Emperor is 68 years old, and some Ethiopians reason that it may be to the advantage of the two Shoa Amhara clans to work together in a bid for power should the Emperor die. They have a common cause to fight for, being the wealthiest landowners, the political elite, and the masters of the Ethiopian Empire. They are already well represented in the government, and they have no trouble in securing important positions for their children.

The Tigre are the closest challengers of the Amhara and have been given token representation in the government because of the royal family of Tigre, which has a distant claim on the throne. The Tigre group in Tigre Province and Eritrea has latent separatist sentiments that provide an additional reason for the Emperor to give them token representation in the government. As a result of being denied more opportunity in government, however, an increasing number of the Tigre are becoming merchants. When a Tigre obtains an important position in business he tends to hire only Tigre people, regardless of their ability. This practice causes hard feelings among other groups of people.

- 5 -

NOFORN/CONT CONTROL

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Apart from the fact that they hold many governmental posts the Mojas are influential because, as large landowners, they are financially independent and owe no special fealty to the present Emperor, Haile Selassie. They can afford to decline governmental appointments and often have done so. A number of Mojas are private businessmen whose financial position enables them to criticize the Emperor openly. When he retaliates by taking land away from some of them, others of the clan give part of their land to the victims. The Mojas are too many and, at present, too powerful to be dispossessed entirely; and many Ethiopians believe that the Emperor needs the Moja more than the Moja need the Emperor. That they do not always approve of the Emperor's decisions can be judged by what one Moja reportedly said to him: "We can do nothing to you because you are in power. But by your selfish and shortsighted actions you are digging a grave for your son."

Members of the Addisge clan are generally conservative aristocrats who own much land in Shoa and the other provinces. At present the most important positions held by members of the Addisge are the Head of the Senate and the Acting Governor of Shoa Province (the Emperor is the official Governor of Shoa Province).

The Gallas have been represented in the government because they constitute the largest group in the country. Perhaps the foremost Galla is Major General Mulugueta Bulli, the most capable military man in Ethiopia. He has inspired admiration among officers in the army but has alienated many influential people outside the army. Currently,

he is the Minister of National Community Development, and consequently has considerable influence over the Land Reform Program.

Arabs, estimated to number more than 50,000, form the largest foreign group in Ethiopia. Although some of the Arabs probably can trace their residence in Ethiopia through several generations, most of them actually immigrated from the Yemen and the Somalilands during the past 30 years. Some Arabs have even intermarried with the indigenous population, thus becoming firmly established in many communities.

Arab merchants are willing to accept a small margin of profit, well below that of European competitors. Because of Arab clannishness and business practices, small European firms that have attempted to establish distribution organizations in the provinces have found it virtually impossible to compete in markets controlled by the Arabs. Arab traders in isolated communities are linked to Arab wholesalers and agents at Addis Ababa and other centers. Orders for goods, as well as market information, are passed with startling rapidity from Arab to Arab through messages relayed by truckers and Arab travelers. This informal method of conducting business is further facilitated by the family relationships that often exist between Arabs in widely separated parts of the country. Partly as a result of the Arab preference for doing business with other Muslims, Islam has continued to spread in Ethiopia because, once converted to Islam, an Ethiopian finds it easier to obtain credit for imported items that the Arabs control.

Some of the non-Arab foreign elements -- chiefly Indians, Greeks, and Armenians -- also play an important role in the commerce of Ethiopia.

- 7 -

These foreigners profit from the disinclination of most Ethiopians to engage in trade, a disinclination that still prevails although not as strongly as in former times. The largest firms of Ethiopia are comprised of mixed foreign nationalities, including British and French. The Italians, who are more numerous than other foreign groups, generally are not engaged in trade but, instead, are artisans and small industrialists.

#### IV. Recent Bloc Aid and Western Air Programs

Ethiopian economic policy in the past 2 years has emphasized stronger ties with the Bloc, particularly the USSR, from whom a \$100 million line of credit was acquired in 1959.\* Of this amount \$42 million had been obligated, but, by 30 June 1960, only \$2 million actually had been drawn upon. In 1959, Ethiopia acquired from Czechoslovakia a \$10 million credit, of which \$2.6 million had been obligated but nothing had been drawn as of 30 June 1960. The estimated minimum total Bloc aid extended to Ethiopia, including grants, amounts to \$113.6 million.

By accepting these credits Ethiopia hoped to achieve the goals set forth in its economic development plan for 1957-61. Among the providers of foreign credits the USSR was an outstanding advocate of the kind of central economic planning desired by Emperor Haile Selassie, and the \$100 million line of credit was pledged for direct support of the Ethiopian economic plan. Nevertheless, when the Emperor learned of the limitations of the USSR credit -- specifically, that it represented

\* US dollars are used throughout this paper.

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goods and services instead of dollars to be spent as he pleased -- he and most of his ministers became more realistic in appraising Soviet aid. Apprehensions on the part of the Ethiopian Government about Soviet penetration seemed to increase, but no public statements have been made to that effect. The Emperor still intends to use the credits, but he is proceeding cautiously. A key aspect of the Emperor's attitude toward the USSR is his belief that the USSR supports his stand against a territorially enlarged Somalia -- a part of the Greater Somalia movement. Thus, he has been reluctant to rebuff the USSR on some economic projects for fear that he might lose their allegedly promised support on Somali issues.

From the end of World War II through 1959, the Free World has extended an estimated total of \$130 million in economic aid to Ethiopia. The United States share of this amount during this period was over \$71 million. In the 1955-59 period alone, the Free World extended to Ethiopia in economic aid an estimated \$78 million, most of which has been obligated, and much of which has been spent.

Although the United States has become the foreign power most closely involved in the development of Ethiopia, Yugoslavia also has acquired a favorable position. The main contribution of Yugoslavia has been in advocating a concept of the role of the state in comprehensive economic planning, including the establishment and operation of state enterprises -- a concept that differed from that prevailing in Ethiopia. Thus, Yugoslav aid in formulating the first comprehensive development program

NOFORN/CONF CONTROL

for Ethiopia unwittingly helped prepare the way for Ethiopian acceptance of further aid from the Soviet Bloc. However, no evidence of collusion between Yugoslavia and the USSR is available. More than 100 Yugoslav technicians now serve in advisory capacities in the Ethiopian Government.

Yugoslav aid and technical advice have not prevented the United States from dominating the development of airways, highways, and telecommunications in Ethiopia. The US monopoly of military assistance also has been of great importance in maintaining American influence in Ethiopia. The drawback of the US aid program from an Ethiopian point of view apparently has been its emphasis on long-term improvements in the country through projects, most of them unspectacular, that do not result in rapid increase in production.

A critical point was reached in 1958. A decline in the price of coffee, the major export, together with an increase in imports arising out of the Ethiopian Development Program resulted in a trade deficit of \$17 million and a consequent drain on foreign exchange reserves. When, in the autumn of 1958, the United States rejected Ethiopia's request for a \$50 million loan and later was unresponsive to requests to support the budget with cash grants while revenues were falling the Emperor became convinced that he must turn to the USSR.

Several major economic project proposals that seriously undermine Western interests have been discussed between Ethiopia and the USSR. The proposals include (1) an oil refinery, (2) aircraft and related facilities, and (3) a minerals survey, all of which are discussed below.

Oil Refinery. The USSR has offered to build an oil refinery that would be financed by the \$100 million line of credit already extended to Ethiopia. Soviet technicians are working in the Ministry of Public Works and Communications developing plans and specifications for such a refinery. An American firm has also presented a proposal for building an oil refinery in Ethiopia, but the Emperor is reported (as of 27 July 1960) to have told the firm that he felt committed to the Soviet proposal. The Ethiopian Deputy Commander of Naval Forces later informed the United States Chargé d'Affaires Ad Interim that the oil refinery proposal had been agreed upon previously in Moscow and that Ethiopia was indeed committed to the USSR on this project. On 19 July 1960, major Western petroleum distributors stated during a discussion of fueling facilities at the new international airports of Addis Ababa and Asmara that their companies could not contemplate an additional investment of \$250,000 each for such facilities as long as there was a possibility that a refinery might be built by the USSR. The USSR is attempting now to market refined petroleum products through Western oil distributors. In January 1959 the USSR Commercial Counsellor of Embassy offered exclusive representation for Soviet petroleum products to A. Besse and Company, the distributor for the Shell Oil Company, but at last report the USSR was still looking for a distributor for its petroleum products.

Aircraft and Related Facilities. The USSR offered in July 1960 to supply TU 104 jet aircraft to Ethiopian Air Lines under the terms of the \$100 million line of credit. Placing TU 104 jet aircraft on African

air routes would be an important step in the Soviet penetration of Africa. The Ethiopians preferred to acquire Boeing 720 B jets, provided that adequate financing could be found. As of 21 July 1960 the Ethiopian Government was not able to handle the terms proposed by the Export-Import Bank, which had indicated that it would not depart from its established formula of a 20 percent down payment and a loan duration of 7 years. In mid-August, however, the Export-Import Bank loaned Ethiopia up to \$10 million for the purchase of 2 Boeing 720 B jets. The Ethiopians also were negotiating in August and September 1960 with (1) the Development Loan Fund for a \$3.5 million loan for shop equipment and ground facilities, and (2) the Export-Import Bank for assumption of credit of about \$16.5 million for airfields and terminal facilities.

These developments concerning the purchase of jet aircraft occur at a time when the Ethiopian Government and the Ethiopian Air Lines (EAL) are investigating the feasibility of obtaining landing rights in West Africa, preparatory to the eventual establishment of a trans-Africa service. The Czechoslovak Airlines (CSA) have already established a regular weekly service to West Africa on the Prague-Zurich-Dakar-Conakry (Guinea) route. Czechoslovakia has also sold four Il 14 aircraft to Guinea, with a mid-September 1960 delivery date. The aircraft will have Czechoslovak flight and maintenance crews.

Minerals Survey. The third proposal, an exploratory minerals survey, also was placed before the Ethiopians in detail in mid-July 1960. It not only involves a larger number of USSR or Bloc technicians than the



NOFORN/CONT CONTROL

refinery and aircraft proposals, but also would provide access to significant scientific information that would be useful to USSR military interests. Like the other two major projects, the minerals survey would be financed by the USSR \$100 million line of credit. The survey of a 100,000-square-kilometer area between Adola and Akoba in southern Ethiopia would require aerial photography, geodetic work, a geological survey, an aerial magnetic survey, and, finally, map compilation in the USSR. The opening phase of the minerals survey would begin in late 1960 and end in the fall of 1964. Some 300 Soviet technicians would be employed for periods varying in length. The same work probably could be accomplished by only 30 to 50 Americans. The USSR offer is suspect not only because of the obvious overstaffing but also because of technical incongruities contained in the proposals and the fact that a minerals survey currently underway in Eritrea under Soviet sponsorship is going over ground previously covered by German geologists whose report on its potential value was negative.

#### V. Economy

##### A. General Character

Agriculture, including the raising of livestock, dominates the economy of Ethiopia and provides well over 90 percent of the total exports, which provide Ethiopia with foreign exchange. Coffee is the major product, accounting for 55 to 65 percent of exports and providing from 50 to 75 percent of Ethiopia's foreign exchange.

NOFORN/CONT CONTROL

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Estimates of coffee production tend to be unreliable because of the way in which the coffee is harvested and sold. Considerable coffee is left unpicked each year, particularly on trees that are some distance from a trail. The time and amount of rainfall also have an important influence on exportable production because rain governs the extent to which roads are passable at the time when the coffee must be brought to the major trading centers. The general trend of coffee production and earnings over the past 2 decades has been strongly upward, and substantial further increases are possible as the network of all-weather roads is extended. Skill in picking and selecting coffee beans, however, is at a low level and seriously affects the quality and marketability of the product. The International Cooperation Administration has been making a strong effort to improve both transportation and skills. Nearly all coffee grown in Ethiopia is cultivated under natural forest shade at altitudes between 4,500 and 7,000 feet above sea level. Ethiopia has large undeveloped areas where climate and soils are favorable for the growth of coffee, and production probably could be expanded many times over through the extension of plantation agriculture. Even without such extension of acreages, exports could be increased materially if coffee now unpicked were harvested and if transport were available to bring it in to the markets from distant points.

Among other exports, oilseeds and pulses (peas, beans, lentils) together account for about 12 percent of the total value of all exports. The export of hides and skins amounts to less than 10 percent of the

NOFORN/CONF CONTROL

total value of all exports. This percentage is potentially increasable because cattle and good grazing lands are plentiful in Ethiopia. Non-agricultural exports amount to less than 10 percent of the total value of all exports. Mineral production is negligible; and industry is largely limited to the processing of agricultural products and the manufacture of a few items -- cement, bricks, shoes, soap, and cotton textiles -- for local consumption.

Most Ethiopians live on subsistence farms consuming the bulk of their own produce and bartering or selling the remainder in nearby marketplaces. An increasing minority grow crops for sale outside the immediate community, but these crops are usually in addition to, rather than in substitution for, those raised for the farmer's own use.

Large land holdings are common and often are of long standing. The Ethiopian Orthodox Church, the royal family, and the nobility own very large tracts. Inasmuch as the owners take the real profits, the tenant farmer is left with only enough to maintain a very low standard of living. Assuming that the farmer is fortunate enough to raise a cash crop independently, he is still subject to the charges of the middleman who controls the trading center.

Although ownership of large tracts of land is common, the typical farm unit is small, perhaps 15 or 20 acres, and is cultivated by one family. Most frequently, the farm units operate under one of several tenancy arrangements, depending upon the region, under all of which the farmer pays the owner through a share of the crop. In some areas,

NOFORN/CONT CONTROL

land is held by tribal groups and individual plots are worked by the families who are members of the tribe. The number of individual freeholds in Ethiopia is relatively small.

A few concessions of agricultural land have been granted to foreigners, the largest and best known being the Wongi sugarcane plantation and factory operated by N.V. Handelsvereeniging "Amsterdam." Foreigners are not permitted to own land except by permission of the Emperor, a dispensation normally granted only to residents of long standing or to those who have performed some special service to the nation. Long-term leases, however, can sometimes be arranged. Such regulatory practices naturally give the Emperor and favored members of the bureaucracy opportunities for illicit profit. The Emperor himself is suspected of having financial interest in some of the more profitable businesses of the country.

The interests of United States citizens and corporations in Ethiopian agriculture are small and represent, according to the latest available figures, an investment of well under half a million dollars. The interests of other foreigners in agricultural and nonagricultural pursuits is greater, and is discussed under Internal Trade, p. 20.

#### B. Foreign Trade\*

The overwhelming share of Ethiopia's trade has been with the Free World. The Bloc, however, is slowly increasing its business with

\* Data from the Ethiopian Customs have been in arrears for over 18 months, forcing the use of State Bank data for export-import figures in this report. The licensing data of the State Bank, although useful [footnote continued on p. 17]

NOFORN/CONT CONTROL

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Ethiopia, but the full effect of recent Bloc efforts has not yet been reflected in the trade balances. Prior to 1958, trade between Ethiopia and the Bloc was negligible. Even in 1958 the Bloc shared only 2 percent of Ethiopia's total trade of \$140 million. This percentage is believed not to have changed materially in 1959, but a considerable increase is anticipated for 1961 and thereafter as the recently signed credit agreements are implemented.

1. Trade With the Free World

The total value of Ethiopian imports from the Free World during 1959 appears to be more than \$67 million out of a total of about \$69 million in imports from all sources. The bulk of Ethiopian imports were from Italy, the United Kingdom, Japan, the United States, and India. The chief change from previous years is the increasing importance of Japan in supplying Ethiopian imports. As 1959 ended, licenses for imports from Japan had attained the highest value recorded for any quarter during the past 3 years, attributable mainly to increased imports of cotton goods and sundries. According to the State Bank of Ethiopia, the United

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as an indication of variations in the pattern of Ethiopian trade, show only imports and exports for which the State Bank collects or disburses foreign exchange. Excluded are Ethiopian Government imports financed from (1) foreign credits and grants and (2) Italian reparations payments that are estimated by the State Bank to add about 20 percent to the value of imports shown in the licensing data. Further, the foreign exchange control regulations adopted by the State Bank late in 1959 had the effect of inflating the value of imports shown for that period. Importers made payments during late 1959 for goods which, for the most part, would not arrive in Ethiopia until mid-1960. On the other hand, the valuation of exports by the State Bank includes payments for invisibles that do not accrue to Ethiopia. Hence the licensing data must be used with caution, particularly in any discussion of Ethiopia's balance of trade. Source: Foreign Service Despatch No. 267, Addis Ababa, 12 April 1960, p. 13.

States moved from fifth to fourth place among all of the suppliers of Ethiopian imports in 1959 when Ethiopia imported \$4.7 million worth of US goods. In the last quarter of 1959, imports of US tires and tubes, machinery, and tools showed substantial increases over previous quarters of 1959; imports of fuels and oils were more than double those of previous quarters of 1959 and well above those of any quarter during 1957 and 1958.

The Free World took most of the total Ethiopian exports of \$70 million during 1959. The major customers were the United States, Italy, the United Kingdom, Saudi Arabia, Japan, France, Yugoslavia, and Aden.\* The exports were preponderantly agricultural, chiefly coffee, cereals and pulses, oilseeds, goatskins, sheepskins, hides, and kat\*\* leaves (a narcotic). The big coffee customers were the United States (the principal one), the European and Middle Eastern countries, and Japan. Hides and skins were exported to the United States, Aden, and many European countries; and cereals and pulses went mainly to Saudi Arabia.

## 2. Trade With the Bloc

The total value of Ethiopian imports from the Bloc during 1959 appears to be under \$2 million out of a total of about \$69 million in imports from all sources. During 1959, Ethiopian imports from the Bloc as a whole increased only slightly over the level of 1958 -- from \$1,843,000 to \$1,908,000. Discernible changes, however, occurred in the sources and types of imports from the Bloc. The USSR increased its

\* Exports to Aden (as well as French Somaliland) are largely for transshipment to the United States, Saudi Arabia, Yemen, and the United Kingdom.

\*\* Also spelled khat, gat, and chat.

S-E-C-R-E-T

NOFORN/CONT CONTROL

exports to Ethiopia by about 47 percent (from \$400,000 to \$587,000) and Hungary by 340 percent (from \$72,000 to \$319,000). Communist China for the first time exported enough to Ethiopia to be shown separately in the Ethiopian State Bank tables. On the other hand, exports to Ethiopia from Czechoslovakia declined slightly, although that country continued to be the leading Bloc supplier. A sharp reduction was recorded in exports from Poland and Bulgaria to Ethiopia during 1959. An examination of the classes of items being purchased by Ethiopian importers from the Bloc during each quarter of 1959 indicates an increasingly varied assortment of goods of Bloc origin. The emphasis, however, continued to be on consumer goods. Imports of heavy machinery, electrical goods, and building materials indicated no greater reliance on Bloc suppliers for durable goods.

The total value of Ethiopian exports to Bloc countries in 1959 decreased by roughly one-half from the 1958 total -- from \$963,000 to \$455,000 out of a total of \$70 million in exports to all nations. The entrance of Communist China into Ethiopian trade through a relatively large purchase of coffee failed to offset the small decrease in exports to the USSR and the exceedingly large decrease in exports to Czechoslovakia. Exports to the USSR consisted mostly of goatskins and coffee; those to Czechoslovakia were mainly oilseeds. The pattern of the shipments was little changed over previous years, the shipments representing mainly isolated sales.

The business community in Ethiopia during the first half of 1960 demonstrated a growing resistance to established Bloc barter practices.

- 19 -

NOFORN/CONT CONTROL

S-E-C-R-E-T

NOFORN/CONT CONTROL

A number of exporters have commented unfavorably on the terms of barter trade with the Bloc and have noticed local consumer resistance to Bloc products offered for barter. The products were said to be of inferior quality and to have represented little or no saving in price.

C. Internal Trade

The internal trade of Ethiopia is concerned, for the most part, with the flow of agricultural commodities from the primary producer to the point of export, and with the distribution of imports. The present pattern of internal trade clearly shows the country's reliance on its agricultural exports for foreign exchange earnings and on imports to satisfy the demand for practically all manufactured items. Such generalizations, however, do not give any idea of the important role of barter and related trade transactions in the life of the vast majority of the people.

1. Barter and Related Trade Transactions

Perhaps some 90 to 95 percent of all Ethiopians live directly from agriculture, including the raising of livestock. The expression "live from" is used in preference to "engaged in" because of the large numbers of churchmen whose subsistence derives from the vast estates of the Ethiopian Orthodox Church and of landowners who are maintained in idleness by a peasantry not far removed from serfdom. Whether the individual farmer lives on land owned by the church, by the large landholders, by a tribal unit or -- most rarely -- by himself, he farms primarily on a subsistence basis. This means that he has little or no money and must resort to barter or related simple trade transactions.

- 20 -

NOFORN/CONT CONTROL



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Three types of transaction can be distinguished in the trading process. One is a straight barter transaction, such as trading a chicken for a piece of beeswax. A second type is barter using money as a common denominator to facilitate the transaction but not exchanging it. The third is the sale of goods for money, but the seller has already determined the prices of the items he plans to buy and so completes both his sale and his purchases before leaving the market. The third type requires a long time. A not uncommon sight, even in the major urban markets, is an elderly woman who has obviously reached agreement on a sale in terms of money, but who refuses to complete the sale until she can bring together both the purchaser of her goods and the seller of what she wants, permitting both transactions to be accomplished at the same time.

Recently, important changes have been modifying the common type of trading. The most significant change has been the increasing use of currency, not only near the trading centers, but in many outlying areas. Even so, many people are still reluctant to risk traveling with a sum of money on their person for fear of being robbed.

## 2. The Distribution of Imports and the Collection of Exports

About 15 large import and export concerns are prominent in the formal internal trade of Ethiopia. They are, for the most part, owned and managed by Europeans. The largest of these firms, A. Besse and Company, Ethiopia Ltd., is capitalized at \$2 million and is a subsidiary of an Aden firm. Other large firms have smaller but substantial working

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capitals. Most are equally active in imports and exports. American and European manufacturing concerns represented in Ethiopia usually have placed exclusive agencies with one or another of these firms, which are in a position to maintain sizeable inventories.

The restriction of demand for most of the manufactured goods to the cities and large towns has made it unnecessary for the importers to operate large distribution organizations. In the provinces, few manufactured articles are sold widely other than cotton textiles, soap, salt, sugar, needles, razor blades, knives, kerosene lamps, kerosene, candles, flashlights, mirrors, and combs. The importer also often acts as a retailer, there being no necessity to introduce another factor into the distributive process.

Another link in the distributive process is dominated by Arabs, who form the largest group of middlemen. The center of Arab business operations at Addis Ababa is the Mercato, reputedly the largest open-air market in Africa, sprawling over several square miles not far from the European business center of the capital. The Mercato encompasses extensive warehouses and truck depots or campos and hundreds of small retail and wholesale shops and stalls, and offices. On a Saturday market day the Mercato teems with peasants who have come by foot, mule, or bus over long distances to buy or sell. At the core of the business operations of the colorful market, however, is the sizeable group of Arab wholesalers and commission agents who supply goods to Arab traders in the provinces. Among the Arab wholesalers of the Mercato there is some

- 22 -

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specialization in commodities. The provincial trader usually directs his orders to known specialists, although he may rely on a single wholesaler to supply all needs. Few of the Arab wholesalers import directly. Rather, they deal with European commission agents or import firms, showing a preference for the former. Six European commission agents cater to the Arab trade. For purchases of textiles, however, the Arab wholesaler is likely to deal with one of the numerous Indian importers at the Mercato. Cash is commonly employed in conducting day-to-day business transactions of all magnitudes, although many of the Arabs enjoy satisfactory reputations in the business community and are able to obtain substantial credit from the State Bank of Ethiopia.

Retail distribution in the provinces is conducted largely by Arab traders and Ethiopians who either operate small shops or participate in the open-air markets convened on a regular basis in nearly every village of more than a few hundred people. Arab shops may be found in almost every town and most of the larger villages. The retail outlets in the smaller villages, however, are most often operated by Ethiopian Muslims who are supplied with goods by Arab traders. The stock of the small village shop often consists only of a few candles, razor blades and combs, several pounds each of salt and sugar, and some cotton cloth. The largest group of Ethiopians involved in retail trade appear to be members of the Guraghe tribe. The Guraghes, an enterprising group of the Sidamis people have traditionally filled occupations as artisans and laborers at the lower end of the social order. Their entry into

trade during the past few years has been a notable development, especially to Ethiopians who have been concerned about the domination of provincial trade by Arabs.

Agricultural produce for export passes from the peasant to one or more middlemen and thence to the exporters at the major business centers, largely through the same channels employed in the distribution of imports. The Arab traders in the interior are very active as middlemen. At the provincial level, however, Europeans tend to have a more important position in the collection of exports than in the distribution of imports and may absorb much of the middleman function. Although it is not a monopoly, the export trade, particularly in coffee, is dominated by a handful of large firms with headquarters at Addis Ababa.

In general, produce to be marketed is brought by peasants to the markets in the small towns, where it is sold to traders who are usually Arabs, although a few Europeans are engaged in coffee trading in the countryside. Once accumulated, the load of produce is taken by truck or mule to the nearest large market center. There it may be sold to the agent of an export firm, who arranges for its transfer to an export center, or it may be shipped by the trader to the export center for sale.

A close, though not mutually beneficial, business relationship often exists between the middleman-trader and the peasant. For example, in many areas the annual date for the payment of the government land tax does not coincide with the harvest season. In order to obtain cash to

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meet payments, the peasant frequently is forced to sell his crop to the trader prior to harvest at a price below that which is normal during the harvest season. During the year the peasant may also buy imported goods on credit from the trader, to whom he remains in debt until he is able to turn over his produce in settlement. By this means, a trader may be able to corner the production in his area of operations and pay only a small percentage of the price he will later receive for the commodity. An exporter at Addis Ababa has estimated that 90 percent of all peasants who produce for export are involved in future selling on this basis -- probably a high estimate but indicative of the extent of the practice.

Some export firms report that they maintain not only agents in the market centers but also agents who tour the countryside acting as traders. This practice is not widespread, however, because it is expensive and, as an official of one export firm has stated, "there is room for much dishonesty."

During the coffee-selling season much trading is conducted at Addis Ababa, where brokers and provincial traders daily visit one exporter after another in an effort to secure the highest price. Sales are made in an atmosphere of haggling, amid loud vocal claims as to the quality of samples displayed. Once a sale is concluded, the coffee is off-loaded from the truck, which is usually standing by just outside the premises of the exporting firm, and is then weighed and inspected. If the coffee is not delivered immediately and prices rise in the interim between sale

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and delivery date set, the trader usually sells his goods elsewhere -- a practice condemned by most exporters.

D. Plans for Economic Development

Ethiopia is currently operating under its Five Year Plan, 1957-61. The total investment requirements of the Plan are estimated at \$272 million, 65 percent of which will be provided from domestic sources. The remainder represents foreign exchange requirements. As a result of the credits acquired from the USSR and Czechoslovakia, foreign credits now available exceed the anticipated foreign exchange requirements of the Plan by more than \$90 million. There are indications, however, that the original plan for economic development is being expanded in size and scope.

The allocation of investments among the various sectors of the economy according to the Plan as it now is set up are: 36 percent for transportation and communications, 27 percent for agriculture and forestry, 8 percent for manufacturing and industry, 7 percent for electricity, 6 percent for mining, 4 percent for housing, 4 percent for the community development program, 3 percent for education, 2 percent for health, 1 percent for administration, and the remaining 2 percent for a variety of needs.

VI. Strengths and Weaknesses in the Economy

The greatest strength of the Ethiopian economy lies in the fact that the majority of the population is not seriously affected by foreign trade. The predominantly agricultural and pastoral economy is based

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upon households that are largely self-sufficient. In addition to being able to produce enough food to satisfy its present requirements, the country has reserves of arable land which, if properly used, could produce a far greater supply for both domestic and foreign markets. Only about 14 percent of its arable land is currently under cultivation.

The weaknesses of the economy are many. Ethiopia is overdependent upon coffee revenues for foreign exchange. In many parts of the country, an inadequate transportation system is a major obstacle to increased production of both export and food crops. Furthermore, the people are lacking in technical competence and are slow to accept changes. Industrial plants are small and are hampered by insufficient power and trained personnel. Currently, neither the administrative competence nor administrative apparatus is adequate for planning, coordinating, and implementing an national economic-development program.

The presence of both Western and Bloc advisors and money in Ethiopia is accelerating the Emperor's efforts to modernize the country and will be largely responsible for whatever changes are effected in the economy. A considerable increase in trade with the Bloc is anticipated for 1961 and later. The development of Ethiopia, however, is a long-term affair -- regardless of foreign aid programs. The country can not be lifted out of the Dark Ages overnight. Several five-year plans, not merely one or a few, will be required to propel Ethiopia into the twentieth century.

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